

City of Detroit

CITY COUNCIL

IRVIN CORLEY, JR.
DIRECTOR
(313) 224-1076

FISCAL ANALYSIS DIVISION
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 218
Detroit, Michigan 48226
FAX: (313) 224-2783
E-Mail: irvin@cnci.ci.detroit.mi.us

ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*

DATE: June 24, 2008

RE: Detroit Tunnel Side Transaction (**Departmental Report**)

Status on the Tunnel Deal

Honorable City Council Members, the members of the Budget, Finance and Audit Standing Committee during its session this past Friday elected to move out of committee the tunnel transaction that is currently before your Honorable Body with a "no" vote.

City Council, I am inclined to agree with the no vote at this time, which means that I do not currently support this transaction.

I would like to remind the Council that according to the authorizing resolution that establishes the Detroit Tunnel Authority (see Attachment I), your Honorable Body is to review and approve financing documents before the closing of this transaction.

Financial information regarding the Windsor's loan application and financial models addressing the repayment of the loan was delivered to the Budget, Finance and Audit Standing Committee this past Friday (see Attachment II).

Based on my initial review of the financial information, I have some serious unanswered questions and reservations regarding the financial structure of the tunnel deal. Please see Attachment III for my questions and concerns. This memo was emailed to your Honorable Body yesterday morning.

Because of the level of unanswered questions, and additional information needed to make a better analysis of the financial information presented for the tunnel transaction, **I would recommend do not approve, if Council were to vote on the authorizing resolution on Tuesday, June 24, 2008, during formal session.**

However, if deemed appropriate by your Honorable Body, you could agree to have an adjourned session later this week, probably Friday, June 27th being the latest, to vote on the authorizing resolution for the tunnel deal, to give the Administration more time to address my questions and concerns. If Council agrees with this scenario, I would respectfully request the Administration to send the information requested by early Thursday, June 26th.

Alternative Plan in lieu of the Tunnel Deal

As you know, City Council anticipates the City ending up with an accumulated deficit of \$78 million as of June 30, 2008. \$58 million of the deficit represents the unauthorized tunnel deal and \$20 million represents Fiscal's deficit projection as of June 30, 2008 assuming the authorization of the tunnel deal. As a result, your Honorable Body created a Prior Year Deficit appropriation of \$78 million in the 2008-09 budget.

However, it is possible that the accumulated deficit could go higher than \$78 million, for instance, if certain land sales are not consummated by June 30th. If the actual accumulated deficit is greater than \$78 million, the Administration will have to come up with a deficit elimination plan to address this. But for the sake of conversation, let's assume the deficit is \$78 million.

Meanwhile, if your Honorable Body not approves the tunnel deal, a \$58 million hole would be in the budget. The hole could be addressed by issuing the \$58 million in Fiscal Stabilization Bonds Council put in the 2008-09 budget, and avoid massive layoffs.

The annual debt service on a five-year \$58 million in Fiscal Stabilization Bonds assuming a fixed-7% interest rate is approximately \$13.8 million. According to PA 80 of 1981, Fiscal Stabilization Bonds can have a maturity of 30 years. So, the annual debt service on a ten-year \$58 million Fiscal Stabilization Bond sale assuming a fixed-7% interest rate is \$8.1 million.

Yes, I agree with the Administration that Fiscal Stabilization Bonds are expensive and require usage of General Fund dollars to make debt service payments. But the credit rating agencies also like to see long-term budgetary plans that address structural balance as well. If it takes Fiscal Stabilization Bonds to address a deficit, supported by a plan to reach structural balance over a period of time, for instance in 3 years, then the rating agencies do not frown upon these bonds as much.

Of course, the Mayor could develop a plan to address any deficit using a mixture of ideas that could minimize the use of Fiscal Stabilization Bonds, including minor lay offs or elimination of unfilled positions, further reduction in overtime and contractual services, consolidation of departments, a merging of departments with other governmental entities, beefing up receivable collections, etc.

Therefore, it would not make sense to do massive lay offs as a knee jerk reaction to address any deficit. If at all possible, I would think the Mayor wants to get a better handle on the true deficit, and wait for the results of the 2007 CAFR in November and the 2008 CAFR in April 2009.

The only caveat is that the Mayor may need a sizable cash infusion in order to maintain appropriate cash flows for City operations.

Attachments

cc: Council Divisions
Auditor General's Office
Anthony Adams, Esq., Deputy Mayor
Norman White, Chief Financial Officer
Pamela Scales, Budget Director
Kerwin Wimberly, Mayor's Office

ICJ:\ICORLEY\Detroit Tunnel Transaction 6 23 2008.doc

RESOLUTION

WAIVER OF RECONSIDERATION REQUESTED

BY COUNCIL MEMBER: _____

WHEREAS, the City of Detroit, a municipal corporation ("Detroit") of the State of Michigan (the "State"), has been duly created under the provisions of the Home Rule City Act of the State, Act 279, Public Acts of 1909, Mich. Comp. Laws Section 117.1 et. seq., as amended ("Act 279"), pursuant to which Detroit has the comprehensive home rule power conferred upon it by Act 279 and the Constitution of the State of 1963 (the "Constitution"), subject only to the limitations on the exercise of that power contained in the Constitution, by statute of the State or by provisions of the City Charter of Detroit (the "City Charter"); and

WHEREAS, Act 279 provides, in pertinent part, that a city may in its charter provide for "owning, constructing and operating transportation facilities"; and

WHEREAS, pursuant to the City Charter, Detroit may acquire and maintain or participate in the acquisition and maintenance of a tunnel across the Detroit River; and

WHEREAS, a tunnel connecting Detroit and the city of Windsor, Ontario, Canada ("Windsor") opened for traffic on November 3, 1930 (the "Tunnel"); and

WHEREAS, the Tunnel was constructed and originally owned by Detroit & Canada Tunnel Corporation, a Michigan corporation, and its wholly owned subsidiary, The Detroit and Windsor Subway Company Ltd., a corporation incorporated by special act of the Parliament of Canada (collectively "DCTC"); and

WHEREAS, DCTC transferred its title to the portion of the Tunnel located in the United States to Detroit, on March 20, 1978; and

WHEREAS, as a result of such transfer and related transactions, Detroit owns or leases the portion of the Tunnel located in the United States (the "Detroit Tunnel"), which includes: (i) the Tube and the approaches thereto, (ii) the Plaza, and (iii) the Off Site Inspection Area for customs inspections of commercial vehicles located on the property more particularly described and defined in Exhibit A;

WHEREAS, DCTC, Detroit and Ford Motor Properties, Inc. ("FMPI"), entered into a Lease, Sublease, a Tube Lease and related agreements, each dated March 20, 1978 in accordance with an Amended and Restated Agreement dated August 19, 1977, pursuant to which FMPI constructed improvements to the Plaza and the Off Site Inspection Area at its expense and DCTC leased the Detroit Tunnel (excluding the AMMEX Parcel where the duty free shop is located) through November 3, 2020; and

WHEREAS, Act 196, Public Acts of Michigan, 1986, as amended (“Act 196”) provides for the creation of a public transportation authority which may plan, promote, finance, acquire, improve, enlarge, extend, own, construct, operate, maintain, replace, and contract for public transportation services by means of one or more public transportation systems and public transportation facilities; and

WHEREAS, this City Council has determined that it serves a public purpose and is in the best interest of Detroit to create a public transportation authority for the following purposes: a) to be empowered to the full extent authorized by the Act to provide and improve, by contract or otherwise public transportation services and public transportation facilities between Canada and the United States; b) to enhance the effectiveness of public transportation between Canada and the United States through the Tunnel; c) to, pursuant to the Act, acquire the Detroit Tunnel and to own, lease, and operate the Detroit Tunnel (or cause the Detroit Tunnel to be operated), including maintenance, improvement, enlargement and modernization of the Detroit Tunnel; d) plan, promote, finance, acquire, improve, enlarge, extend, own, construct, operate, maintain, replace, and contract for public transportation service by means of 1 or more public transportation systems and public transportation facilities, as authorized by the Act; e) to be a public benefit agency and instrumentality of the State of Michigan having all powers granted under the Act to accomplish its purposes, and

WHEREAS, this City Council has determined that the name of such public transportation authority shall be “Detroit Tunnel Authority”; and

WHEREAS, this City Council has determined that it serves a public purpose and is in the best interest of Detroit to sell and convey its interest in the Detroit Tunnel to the Detroit Tunnel Authority;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY OF DETROIT CITY COUNCIL, as follows:

1. That the Articles of Incorporation attached hereto as Exhibit ____ are hereby adopted and the Mayor of Detroit is hereby authorized to file the Articles of Incorporation with the Michigan Secretary of State.
2. That _____, _____, and _____ are hereby appointed as directors of the Detroit Tunnel Authority pursuant to Section 7.01 of its Articles of Incorporation which provides, in pertinent part, that the City Council shall appoint three (3) members of the Board of Directors.
3. That the Mayor of Detroit is hereby authorized to execute the Detroit Tunnel Purchase Agreement with the Detroit Tunnel Authority for the transfer of the Detroit Tunnel for not less than Sixty-Five Million and 00/100 Dollars (\$65,000,000.00) and other good and valuable

consideration provided however that any and all documents relating to the sale of the Tunnel, including but not limited to financing documents, must be presented to this City Council for its review and approval as a condition precedent to closing of the transaction and the delivery of the deed.

4. That upon the execution of the Detroit Tunnel Purchase Agreement, receipt of not less than Sixty-Five Million and 00/100 Dollars (\$65,000,000) and delivery of the deed, the Detroit Tunnel shall be deemed removed from the general revenue system.
5. That the appointment of the law firm of Pepper Hamilton LLP as Tunnel Counsel is hereby approved, provided that the fees and expenses of Pepper Hamilton LLP shall be payable solely as a cost of the transaction and solely from the financing of the Detroit Tunnel Authority in accordance with the letter attached hereto as Exhibit ____.
6. That approval of the foregoing resolutions does not act as approval of the proposed Detroit-Windsor Intergovernmental Agreement for Joint Operation and Financing between the Detroit Tunnel Authority and the Windsor Detroit Tunnel Corporation or any agreement whatsoever between the Cities of Detroit, Michigan or Windsor, Ontario relating to the Tunnel.
7. All resolutions and parts of resolutions insofar as they conflict with the provisions of this resolution be and the same hereby are rescinded.

AYES: Members: _____

NAYS: Members: _____

RESOLUTION DECLARED ADOPTED.

Janice Winfrey, City Clerk
City of Detroit
County of Wayne, Michigan

Attachment II

KWAME M. KILPATRICK, MAYOR
CITY OF DETROIT
EXECUTIVE OFFICE

COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVE., SUITE 1126
DETROIT, MICHIGAN 48226
PHONE 313•224•3400
Fax 313•224•4128
WWW.CI.DETROIT.MI.US

June 20, 2008

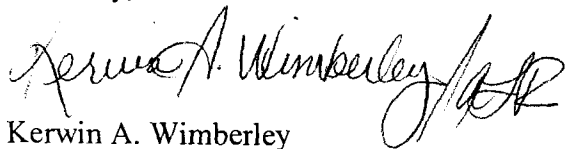
Honorable Council Member
1340 Coleman A. Young Municipal Center
Detroit, Michigan 48226

RE: The Detroit-Windsor Tunnel Financial Package

Attached for your review and consideration is the Detroit-Windsor Tunnel Financial Package.

Should you require additional information, please contact me at (313) 628-0734.

Sincerely,



Kerwin A. Wimberley
City Council Liaison

**ONTARIO INFRASTRUCTURE PROJECTS CORPORATION (OIPC)
LOAN APPLICATION**

Application ID: 8015 Program Year: 2008/2009
Application Submit Date: Apr-30-2008

A. GENERAL INFORMATION - APPLICANT

Borrower Name: Windsor-Detroit Tunnel Corporation Borrower ID: 90474
Address: 350 City Hall Square West City: Windsor
Suite 201 Postal Code: N9A 6S1
Name of VP Finance Onorio Colucci (Secretary Fax No.: 519-255-7310
(or equivalent): Treasurer)
Telephone Number: 519-255-6100 X.6234 Email: ocolucci@city.windsor.on.ca

B. CONTACT INFORMATION

Questions regarding the information contained in the application form should be addressed to:

Name: Onorio Colucci Title: Secretary Treasurer
Telephone: 519-255-6100 X.6234 Fax No.: 519-255-7310
Email: ocolucci@city.windsor.on.ca

C. PROJECT SUMMARY INFORMATION

<u>No.</u>	<u>Project Name</u>	<u>Category</u>	<u>Type</u>	<u>Loan Amount</u>
1	Windsor-Detroit Tunnel	Municipal Corporation Other Infrastructure	Others	\$75,000,000.00
Total Loan Amount				\$75,000,000.00

**ONTARIO INFRASTRUCTURE PROJECTS CORPORATION (OIPC)
LOAN APPLICATION**

Project Information

Project Name Windsor-Detroit Tunnel
Category Municipal Corporation Other Infrastructure

Project Financial Information

Please complete the following Project Financial Information. Only include Project Costs incurred on or after January 1, 2004. Project Funding/Financing represents funds that are available (on hand) at the start of the project.

Project Cost (Incurred on or after Jan. 1, 2004) (A) \$111,474,949.00

Project Funding/Financing

List present Funding/Financing sources for the project (eg. Reserves, other cash on hand, approved grants, etc.).

<u>Source/Description</u>	<u>Amount</u>
NOTE RECEIVABLE TO CITY OF WINDSOR (MIXED FUNDS)	\$36,474,949.00
APPL'N IS CANADIAN EQUIV. OF US \$75 MILLION	
Total Amount (B)	\$36,474,949.00
OIPC Loan Amount (A-B)	\$75,000,000.00

Please enter your long-term borrowing requirements including the date the funds are required. Only include long-term borrowing in this section. If you anticipate that you will require short-term financing during the construction phase of the project, the information will be gathered as part of the Financing Agreement.

<u>Date Required</u>	<u>Amount</u>	<u>Term (in years)</u>	<u>Type</u>
Jul-02-2008	\$75,000,000.00	40	Amortizing
Total Long-Term Financing	\$75,000,000.00		

**ONTARIO INFRASTRUCTURE PROJECTS CORPORATION (OIPC)
LOAN APPLICATION**

D. DEBT AND REPAYMENT SUMMARY

Annual Financial Statements:

Please provide a copy of the Borrower's past 5 years annual audited financial statements.

Existing Borrowing:

Please provide the following details on the existing debt, including capital leases and unsecured debt.

Loan #	Loan Purpose	Initial Amount Borrowed	Amount Outstanding as per Most Recent Audited Financials	Annual Interest Rate (%)	Date Borrowed (mm/dd/yy)	Maturity Year	Summary of Existing Pledges, Conditions, Covenants	Payment Type	Periodic Amount Payable	Payment Frequency

Please elaborate on re-financing plans and options for any existing "interest only" debt, if applicable

New Corporation - no outstanding loans - only intended note payable to sole shareholder, the City of Windsor.

Existing Encumbrances:

Please provide details on existing liens, pledges and any other encumbrances on existing assets

Please see Asset Purchase Agreement previously provided.

**ONTARIO INFRASTRUCTURE PROJECTS CORPORATION (OIPC)
LOAN APPLICATION**

E. LITIGATION

Is there any litigation threatened or existing which would affect any projects or substantially impair the Borrower's ability to pay debt service costs on its general obligation indebtedness? Please indicate Yes or No.

☒ Yes ☐ No

Please complete the Certificate of Litigation template found under the Forms menu.

F. NON-REPAYMENT OF LOANS OR DEBENTURES

In the last 10 years has the Borrower ever failed to make a loan or debenture repayment on time to any lender, including the Provincial Government?

☐ Yes ☒ No

If yes, please provide details. If necessary, attach details.

G. PROVINCIAL GRANTS AS SECURITY

Pursuant to OIPC's enabling legislation, provincial grants to the Borrower may be appropriated by the Legislative Assembly of Ontario for payment to OIPC to satisfy any outstanding amounts owed by the Borrower to OIPC.

H. ATTACHMENTS

Please ensure all required documents are submitted with the signed application. OIPC requires originals as noted below to be mailed or couriered. Also, please retain a copy of all documents submitted to OIPC for your records.

Please indicate with a checkmark on the documents (originals where indicated) that will be submitted to OIPC.

- ☒ Completed application signed and dated by the appropriate individuals (original)
- ☒ Past 5 years annual audited financial statements
- ☒ Certificate of No Litigation using the OIPC template (original)
- ☒ Borrowing Resolution (original or certified seal true copy)

Please note: OIPC retains the right to request and review any additional information or documents at its discretion.

- ☒ I acknowledge that I have read and understood the Project Delivery Guidelines/Requirements.

Windsor-Detroit Tunnel Corporation

By: 

Name: Mayor Eddie Francis

Title: President

and by 

Name: Onorio Colucci

Title: Secretary-Treasurer

We have authority to bind the Corporation

Dated: 8 May, 2008

**ONTARIO INFRASTRUCTURE PROJECTS CORPORATION (OIPC)
LOAN APPLICATION**

Project Details - Municipal Corporation Other Infrastructure

Project Name	Windsor-Detroit Tunnel
Category	Municipal Corporation Other Infrastructure
Construction Start Date	Jun-30-2008
Construction End Date	Jul-02-2008

Please indicate the type of infrastructure project. Please select only one.

- ☐ Fire
- ☐ Police
- ☐ Ambulance
- ☐ Administration
- ☐ Electrical
- ☒ Others

Windsor-Detroit Tunnel Project

Please indicate below if any aspect of the project pertains to energy conservation.

☐ Energy Conservation

Address of the project:

Windsor-Detroit Tunnel
Corporation
Att: Mark Galvin
c/o 350 City Hall Square
Suite 201
Windsor, Ontario
N9A 6S1

Type of work (e.g. new construction, renovation of existing facilities, redevelopment, deferred maintenance, etc.):

Acquisition of Windsor-Detroit
Tunnel (Cdn.)

Description of the project:

Acquisition of the Canadian portion of the Windsor-Detroit Tunnel.

Additional comments:

None.

What is the life span of the project in years? (i.e. the physical asset)

200

Please identify your Ministry contact (If applicable)

RESOLUTION OF WINDSOR-DETROIT TUNNEL CORPORATION
(the "Borrower")

DIRECTORS' RESOLUTION

CAPITAL PROJECTS - FINANCING

WHEREAS the Articles of Incorporation and By-Laws of the Borrower and the governing legislation establishing the Borrower empowers the Board or person(s) authorized by the Board to borrow from time to time such sums for the use of the borrower;

AND WHEREAS it is in the best interests of the Borrower that the Borrower borrow an aggregate amount of up to Seventy-five Million U.S. (US\$75,000,000) Dollars pursuant to a financing agreement (the "Financing Agreement") to be entered into between the Borrower and Ontario Infrastructure Projects Corporation ("OIPC").

NOW THEREFORE BE IT RESOLVED THAT:

1. the Borrower is hereby authorized to borrow up to Seventy-five Million U.S. (US\$75,000.00) Dollars from OIPC for financing certain capital projects pursuant to the terms and subject to the conditions of the Financing Agreement;
2. any two of the officers and/or Directors of the Borrower (each an "Authorized Person") are hereby authorized and directed, for and on behalf of the Borrower, to negotiate the definitive terms of the Financing Agreement and such other documentation as is required in connection therewith;
3. the Borrower is hereby authorized to execute, deliver and perform its obligations under the Financing Agreement, substantially on the terms and subject to the conditions of the Financing Agreement, with such changes thereto as the Authorized Persons executing the Financing Agreement may approve, such approval to be conclusively evidenced by the execution of the Financing Agreement by such Authorized Persons;
4. any two Authorized Persons are hereby authorized and directed, for and on behalf of the Borrower, to execute under the corporate seal of the Borrower and deliver the Financing Agreement, substantially on the terms and subject to the conditions of the Financing Agreement with such amendments and variations thereto as may be negotiated by such Authorized Persons, and/or which such Authorized Persons may approve, such approval to be conclusively evidenced by the execution of the Financing Agreement by such Authorized Persons;
5. any two Authorized Persons are hereby authorized and directed, for and on behalf of the Borrower, to execute under the corporate seal of the Borrower and deliver all such further agreements, instruments, amendments, certificates and other documents and to do all such other acts or things as such Authorized Person may determine to be necessary or advisable in connection with the transactions contemplated by the foregoing resolutions, the execution of any such document or the doing of any such other act or thing by such Authorized Person being conclusive evidence of such determination.
6. any two Authorized Persons are hereby authorized and directed, for and on behalf of the Borrower, to execute under the corporate seal of the Borrower and deliver all such further

agreements, instruments, amendments, certificates and other documents and to do all such other acts or things as such Authorized Person may determine to be necessary or advisable in connection with the transactions contemplated by this resolution, the execution of any such document or the doing of any such other act or thing by such Authorized Person being conclusive evidence of such determination.

CERTIFIED to be a true and complete copy of a resolution of the Corporation that was passed at a meeting of the directors of the Corporation held on the 8th day of May, 2008, pursuant to the provisions of the Business Corporations Act, R.S.O. 1990, c.B.16; and further that the said resolution is now in full force and effect.

DATED the 8th day of May, 2008.


Onorio Colucci – Secretary-Treasurer

Draft for Discussion Purposes Only

Summary of Financial Analysis regarding Potential Detroit Deal-Based on \$75 million Payment to Detroit

9-Apr-08

Scenario #	Scenario Name (see attached for assumptions)	OIPC Loan						Detroit Loan				Note Payable to City			
		Startup & Working Capital Funds	Funds For Initial Cash Flow Stabilization (Added to Detroit Note/Payable)	Funds For Loan to Detroit	Total OIPC Loan	OIPC Annual Payment	Year OIPC Loan Paid Off	Initial Loan Amount	Peak Amount	Peak Year	Year Paid Off	Initial Note Amount	Peak Amount	Peak Year	Year Paid in Full
#1	Optimistic Model	\$2,468,921	\$2,531,079	\$75,000,000	\$80,000,000	\$4,550,000	2048	\$77,531,079	\$217,435,874	2041	2064	\$103,802,835	\$304,018,554	2041	2059
#2	Pessimistic Model	\$2,939,240	\$7,060,760	\$75,000,000	\$85,000,000	\$3,500,000 (2008 to 2027) \$8,280,000 (2028 to 2048)	2048	\$82,060,760	\$420,295,569	2067	Beyond 2082	\$103,802,835	\$643,521,374	2054	Beyond 2082
#3	Actual 2007 Cashflow Model growing @2% inflation.	\$2,710,313	\$8,289,687	\$75,000,000	\$84,000,000	\$3,500,000 (2008 to 2027) \$8,075,000 (2028 to 2048)	2048	\$81,289,687	\$1,626,480,437 in 2082 and growing	Beyond 2082 As Loan Keeps Increasing	Beyond 2082 (if ever)	\$103,802,835	\$2,143,100,267 in 2082 and growing	Beyond 2082	Beyond 2082 (if ever)
#4	Actual 2007 Cashflow Model with near term decline & long term growth.	See Tunnel Cashflows Comparison by Scenarios schedule attached regarding cashflows relative to this model													

- Notes:
- (1) Note Payable to City represents Sales Price to WDTC of \$111,474,949 less Accounts Payable of \$7,672,086.
 - (2) Any shortfalls of the Detroit cashflows are added to Detroit Note Payable in Years required.
 - (3) All models are based on US \$.
 - (4) In some models capital expenditures have been changed from one year to another to accommodate cashflow requirements. Impact is considered minimal.
 - (5) For this purpose loan repayments are assumed to take place mid year.

Tunnel Comparison of Cashflows for Each Scenario

9.1 Optimistic Model

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000
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52 Posa/m1sttc Model

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000
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2007 Actual Net Cashflow Growing at Inflation Model

[illegible]

64 2007 Actual Net Cashflow/Near Term Decline & Long term Growth

[illegible]

Model #1 includes all DWT Cashflow net of Capex through 2032. Based on model District Note would be fully repaid in 2034 with a payment of \$12,382,411 thereafter. DWT would retain all their cashflows.

City of Detroit

CITY COUNCIL

IRVIN CORLEY, JR.
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ANNE MARIE LANGAN
DEPUTY DIRECTOR
(313) 224-1078

TO: Anthony Adams, Esq., Deputy Mayor

FROM: Irvin Corley, Jr., Director *ACJ*

DATE: June 23, 2008

RE: Request for Supplemental Information on Windsor's Financial Analysis of the Tunnel Deal

Anthony, thank you the financial information from Windsor. I do have the following questions, however I realize you may need to get the information from Windsor:

1. Page 3 of the Ontario Infrastructure Projects Corporation (OIPC) loan application is missing. Please provide.
2. Page 2 of the OIPC loan application indicates the life span of the tunnel is 200 years. Please provide rationale/support of this determination.
3. Page 6, section E. Litigation indicates there is existing litigation that could threaten the borrower's ability to pay debt service. The borrower is the Windsor-Detroit Tunnel Corporation (WDTC). Briefly, what litigation is currently involved with the WDTC, and should the City of Detroit be concerned about this?
4. Per "WDTC purchases tunnel assets" page (it is not numbered), DTA "rights to tunnel" at bottom of the page means the usage of DTA's cash flows for the purposes of paying off the OIPC loan, and nothing else, correct?
5. Per "Summary of Financial Analysis regarding Potential Detroit Deal-Based on \$75 million Payment to Detroit" page, I have the following questions:
 - a. Column 2 says, "see attached for assumptions", but they are not attached. Please provide.
 - b. If possible, please provide a copy of the Excel files used to develop the spreadsheets for the models.
 - c. Please confirm my understanding of how the loan application is presented:
 - 1) The WDTC borrows \$75 million from Province of Ontario and in turn loans this money to the DTA. Based on WDTC's OIPC loan

- application and projected cash flows, WDTC pays off the loan in 40 years, around 2048. I assume the OIPC wants repayment in 40 years to make this an acceptable transaction, and it is realized that it takes the revenues from the WDTC to make this happen. I cannot tell what the assumed interest rate on this loan. Please provide.
- 2) WDTC is borrowing to add to "initial cash flow stabilization" to loan with OIPC. Per Scenario #1 or "optimistic model", this amount in column two is \$2,531,079. But this amount gets added to the \$75 million principal amount of Detroit Tunnel Authority's loan (see column one under "Detroit Loan" section). It appears that the Detroit tunnel's revenues are used to make the WDTC loan more stable in order to get it paid off in 40 years. **This is an added burden to the Detroit Tunnel Authority under this financing arrangement.** But somewhat in fairness, this could be viewed as "points" the DTA is paying to make this financing transaction happen. At any rate, the transaction is costly.
 - 3) In turn, the DTA borrows the \$75 million plus from the WDTC that could be paid off in 56 years under the "optimistic model". Basically, lenders do not want to go with optimistic models. However, any more realistic model (models 2-4) shows the DTA loan being paid off at in least in 75 years, but most likely longer. I do not know the assumed interest rate. Please provide.
 - 4) The WDTC will pay off its "note payable to the City of Windsor" in either 51 years (using "optimistic model") or beyond 75 years. I do not understand how and when the WDTC cash flows will be used to pay off this obligation.
- d. Please provide copies of the related amortization schedules for the WDTC/OIPC loan, the WDTC/DTA loan, and the WCTC/note payable to City. These are needed to show how the cash flows would be used to pay off the associated debt service requirements.
 - e. Is it the City's intent to transfer the tunnel as a note payable to the City at some point after the loan is paid off? Has this note been established?
 - f. Is it clear that the revenues from the Detroit side of the tunnel will not be used to assist in paying off the "note payable to City", which appears to be the note payable between the Windsor-Detroit Tunnel Corporation and the City of Windsor?
 - g. Only the "optimistic model" shows that the Detroit loan will be paid off in 56 years. Usually, a more conservative approach is used when relying on projections when doing real estate deals. The other models show the Detroit loan being paid off "beyond 2082", which is beyond 75 years. This means that the tunnel may never really be free of debt, would remain on the hook as collateral, and not really be an asset "free and clear" on the books of the Detroit Tunnel Authority.
 - h. Why do the cash flows show negative amounts in 2026 and 2027?
 - i. **The Ontario Loan Application does not show what interest rate is being offered by Ontario. The interest rate is critical, because it is**

going to impact the amortization schedules. Fiscal thinks that if the interest rate is beyond 5%, the loan could turn out to be a “reverse mortgage” because 1) the first 12 years of the note would grow the \$75 million principal since the Detroit Tunnel Authority would still be bound by the current lease agreement with the Detroit & Canada Tunnel Corporation, and there would not be sufficient cash flows during those years to meet debt service payments, which means that the shortfalls would be added to the principal of the loan; and 2) interest requirements based on a rate above 5% are going to make the Detroit loan that much harder to get paid off in 75 years, especially using more conservative cash flow projections.

And, it is very conceivable that the interest rate is beyond 5%. In the memo from Windsor’s attorney, Clifford Sutts (see Exhibit D in your memo to Council entitled “United States Side of Detroit/Windsor Tunnel Transaction/Balancing the Budget” dated June 16, 2008), Mr. Sutts states in his fifth paragraph “The lender advised that the Province of Ontario borrows money to fund the Lender’s lending practices by issuing debentures at market rates and terms that govern the rates and terms upon which it makes loans to borrowing municipalities”. I do not know what “market rates” are occurring on these type transactions in the Province of Ontario.

But even with the rate at 5%, the DTA could grow from \$75 million to approximately \$131 million by 2023, or in 15 years, according to the cash flow and amortization schedule prepared by Goldman, Sachs & Co. (please see Exhibit E to your memo June 16th memo reference earlier). Please ask Goldman Sachs to provide the remainder of this projection going through year 75, or 2082.

8. I feel compelled to go back to an “old” question. Obviously, the fact that the City of Detroit is currently “bound” by the current lease between itself and the Detroit & Canada Tunnel Corporation between now and 2020 makes the \$75 million loan transaction very expensive. Why cannot the City of Detroit break its lease with the DCTC? What penalty would the City of Detroit occur if the lease was ended now? Do we have a legal opinion in writing that explains the ramifications of trying to break the current lease with the DCTC? If somehow the City could get out of this lease now, much more of the tunnel net revenues could go towards the \$75 million principal in the initial terms of the loan, thereby making this is a more economic viable transaction for the City of Detroit. It probably would be prudent for the Research and Analysis Division also review the current lease documents for any “escape clause” the City of Detroit could possibly take advantage of. Obviously, it maybe difficult to undo the current lease if the DCTC has any net future revenues from the Detroit side of the tunnel restricted to offset any existing and future liabilities associated with the DCTC.

Thank you for the supplemental data.

cc: Honorable City Council
Council Divisions
Auditor General's Office
Kandia Milton, Chief of Staff
Norman White, Chief Financial Officer
Pamela Scales, Budget Director
Kerwin Wimberly, Mayor's Office

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